Exhibit B – Part II

for both curves the put/call option spread is 15. The stocks are filled at the closing price for the day.

Graph 7 Comparison of simulated profits for stock trade prices at the average of high/low when stock SELLS are shifted from Madoff's dates by 0,1,2, or 3 days. The put/call option spread is always 15.

Graph 8 Comparison of simulated profits for stock fills at the close when stock SELLS are shifted from Madoff's dates by 0,1,2, or 3 days. The put/call option spread is always 15.

Graph 9 Comparison of simulated profits for stock fills at the average of high/low when stock SELLS are shifted from Madoff's dates by 0, -1, -2 or -3 days. The put/call option spread is always 15.

Graph 10 Comparison of simulated profits for stock fills at the close when stock SELLS are shifted from Madoff's dates by 0, -2 or -3 days. The put/call option spread is always 15.

Graph 11 Comparison of simulated profits for stock fills at the average of high/low when stock BUYS are shifted from Madoff's dates by 0,1, or 2 days. The put/call option spread is always 15.

Graph 12 Comparison of simulated profits for stock fills at the close when stock BUYS are shifted from Madoff's dates by 0, 1, or 2 days. The put/call option spread is always 15.

Graph 13 Comparison of simulated profits for stock fills at the average of hi/low when stock BUYS are shifted from Madoff's dates by 0, -1, -2, -3, -4, or -5 days. The put/call option spread is always 15.

Graph 14 Comparison of simulated profits for stock fills at the close when stock BUYS are shifted from Madoff's dates by 0, -1, -2, -3, -4, or -5 days. The put/call option spread is always 15.

Graph 15 Comparison of simulated profits as a function of the put/call spread.

Graph 16 Comparison of profits for continuously holding the stock portfolio but with no option collar. Fills at both closing and average of high/low are shown.

Graph 17 Comparison of profits for Madoff dates but with no option collar. Fills at both closing and average of high/low are shown.

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Graph 18 Comparison of Madoff profits for "mirror" dates with stock prices corresponding to close or average of high/low prices. "Mirror" dates mean we sell on a Madoff buy date and buy on a Madoff sell date. The put/call option spread is always 15.

Graph 19 Same as Graph 18 except the buy and sell date are shifted from Madoff's dates by plus 1 day.

Graph 20 Same as Graph 18 except the buy and sell date are shifted from Madoff's dates by plus 2 day.

Graph 21 Same as Graph 18 except the buy day ONLY is shifted from Madoff's dates by plus 1 and 2 days.

Graph 22 Same as Graph 18 except the buy day is shifted from Madoff's dates by +2 and the sell day by minus 2 days.
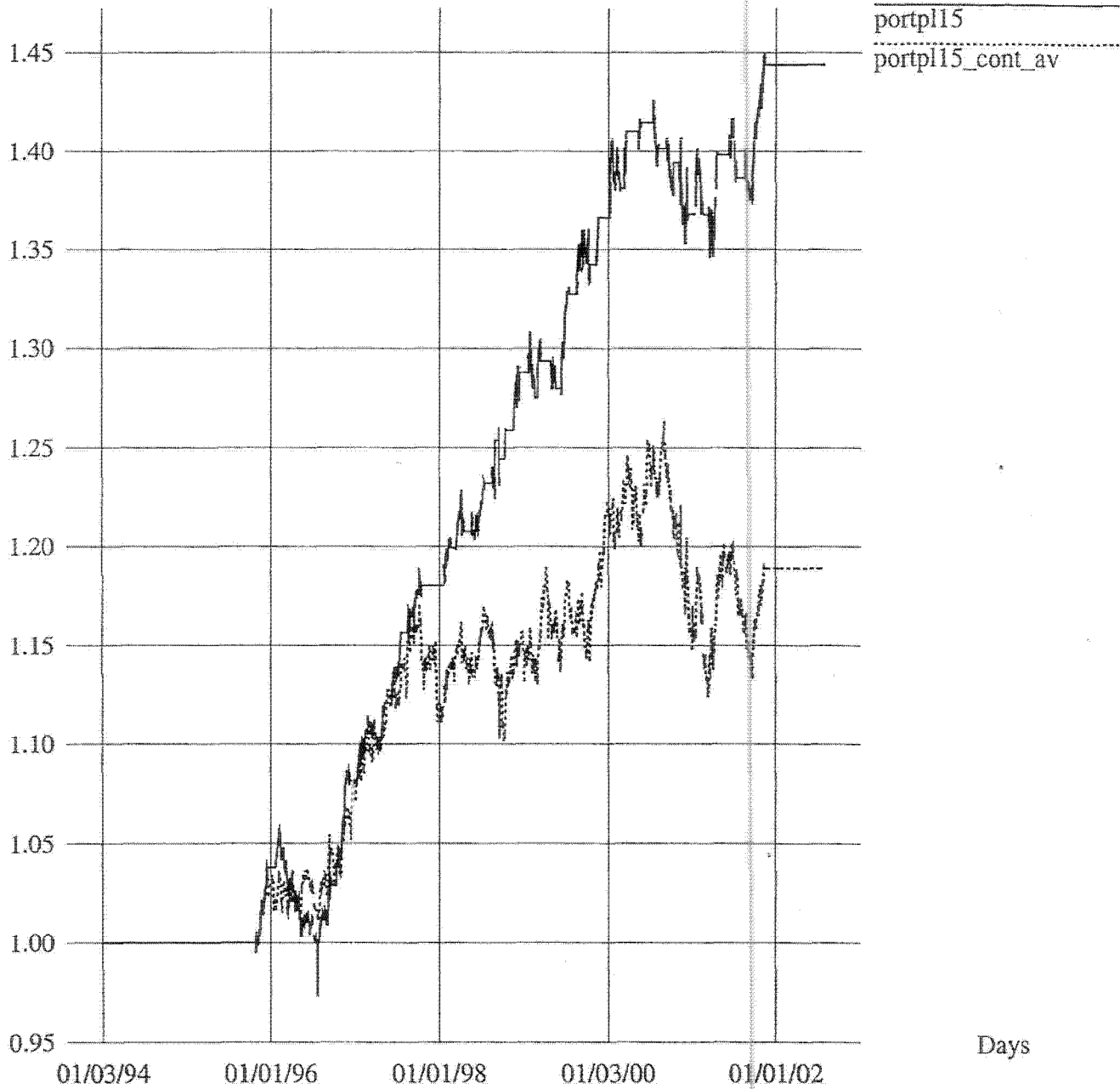
Graph 23 Same as graph 18 except no collar.

- Discussion of Simulator Results

The graphs shown in this report represent a selection of the studies we have performed. Some graphs lend support to the statistical results discussed earlier i.e. the apparent significance of trading at average prices as opposed to the close on Madoff trading days. We also see that the simulator results are not very sensitive to when varying the get out dates by +/- 1, +/- 2, or +/- 3 days, whether the fills are the average price or the closing price. On the contrary delaying getting into the position by a day or two (average or close price) reduces noticeably the overall profits. The profits are not particularly sensitive to getting in early. Of particular interest are the mirror calculations; they simply do not make money with or without an option collar.

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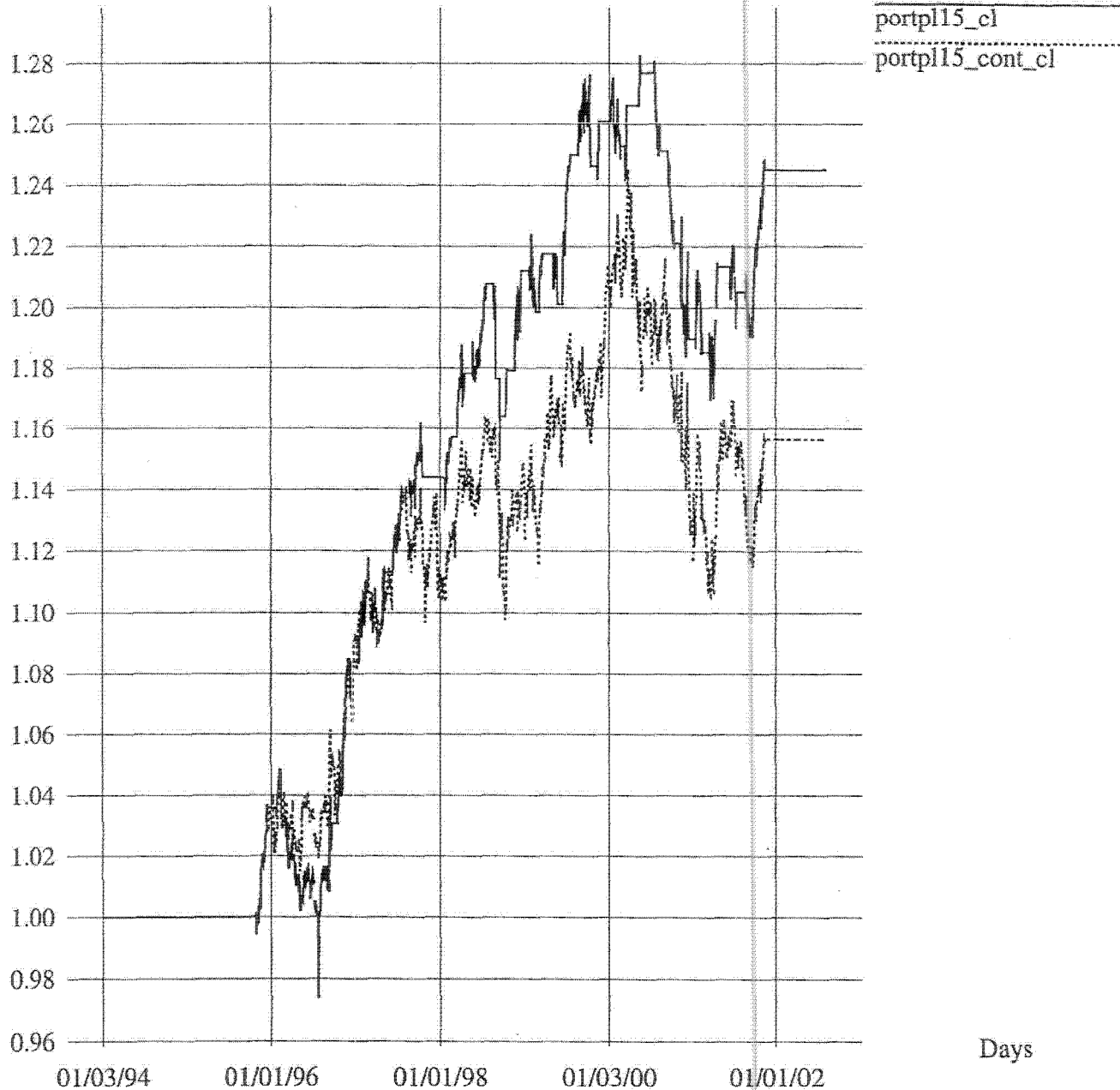## Comparison of Continuous verses trading for average fills
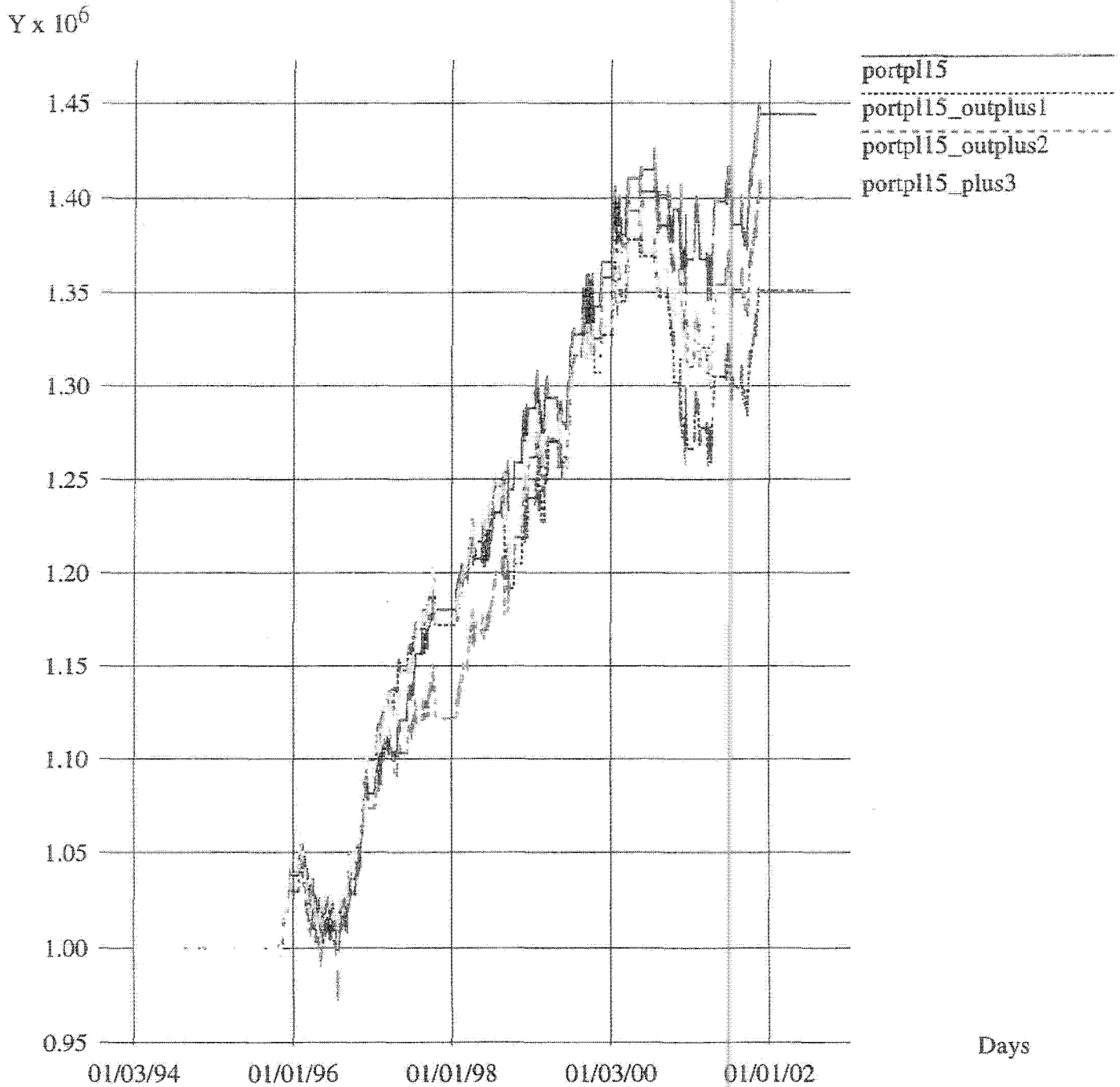
$Y \times 10^6$

Graph 5

25

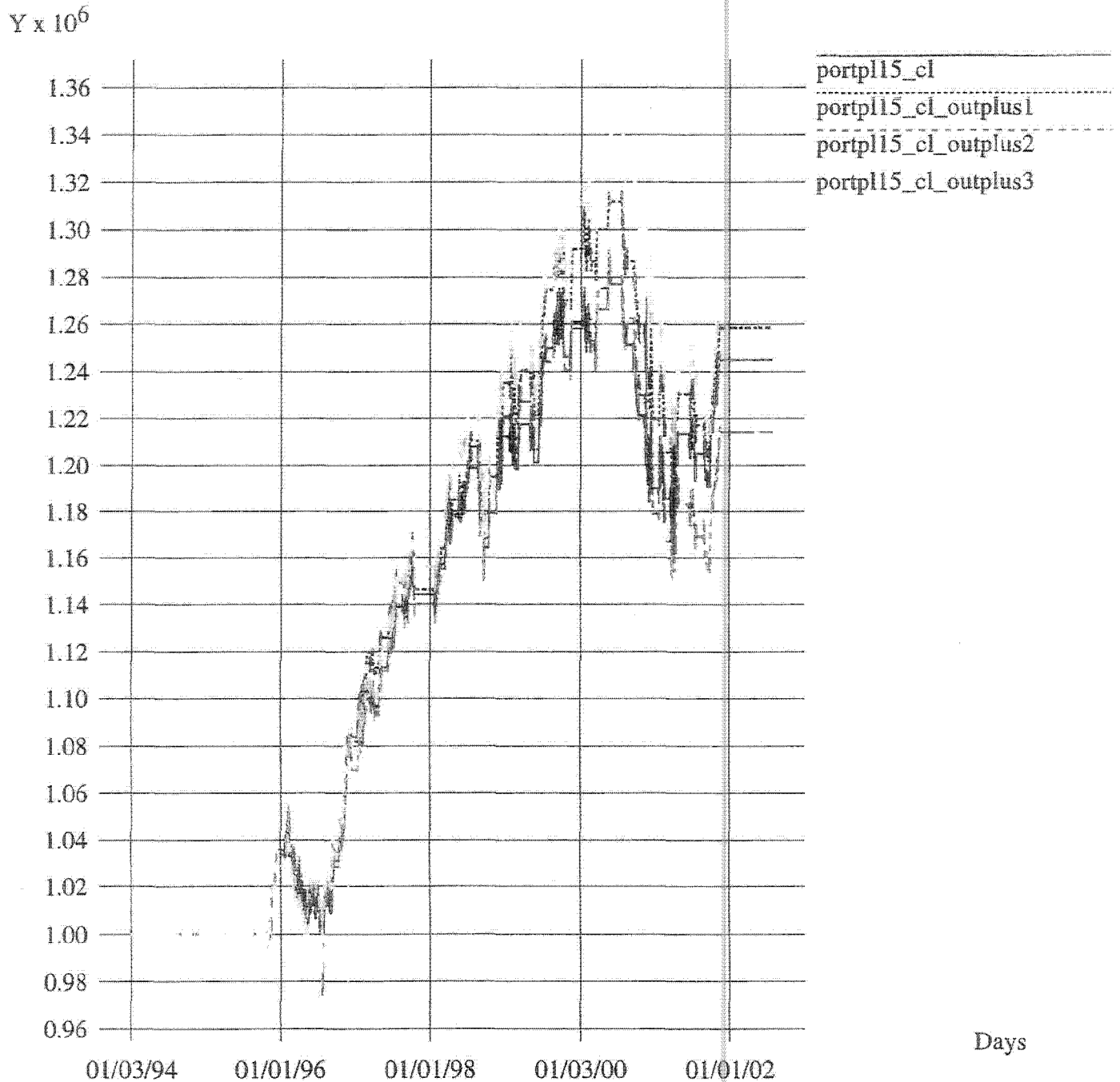## Comparison of Continuous verses trading for cl fills

$Y \times 10^6$

Legend:
- portpl15_cl
- portpl15_cont_cl

Y-axis values: 1.28, 1.26, 1.24, 1.22, 1.20, 1.18, 1.16, 1.14, 1.12, 1.10, 1.08, 1.06, 1.04, 1.02, 1.00, 0.98, 0.96

X-axis (Days): 01/03/94, 01/01/96, 01/01/98, 01/03/00, 01/01/02

Graph 6

Comparison of Mad. for outday plus x

Y x 10^6

portpl15
portpl15_outplus1
portpl15_outplus2
portpl15_plus3

1.45
1.40
1.35
1.30
1.25
1.20
1.15
1.10
1.05
1.00
0.95

01/03/94   01/01/96   01/01/98   01/03/00   01/01/02

Days

Graph 7

27

Comparison of Mad. for outday plus x close

$Y \times 10^6$

Legend:
- portpl15_cl
- portpl15_cl_outplus1
- portpl15_cl_outplus2
- portpl15_cl_outplus3

Days

Graph 8

28

Comparison of Mad. for outday minus x

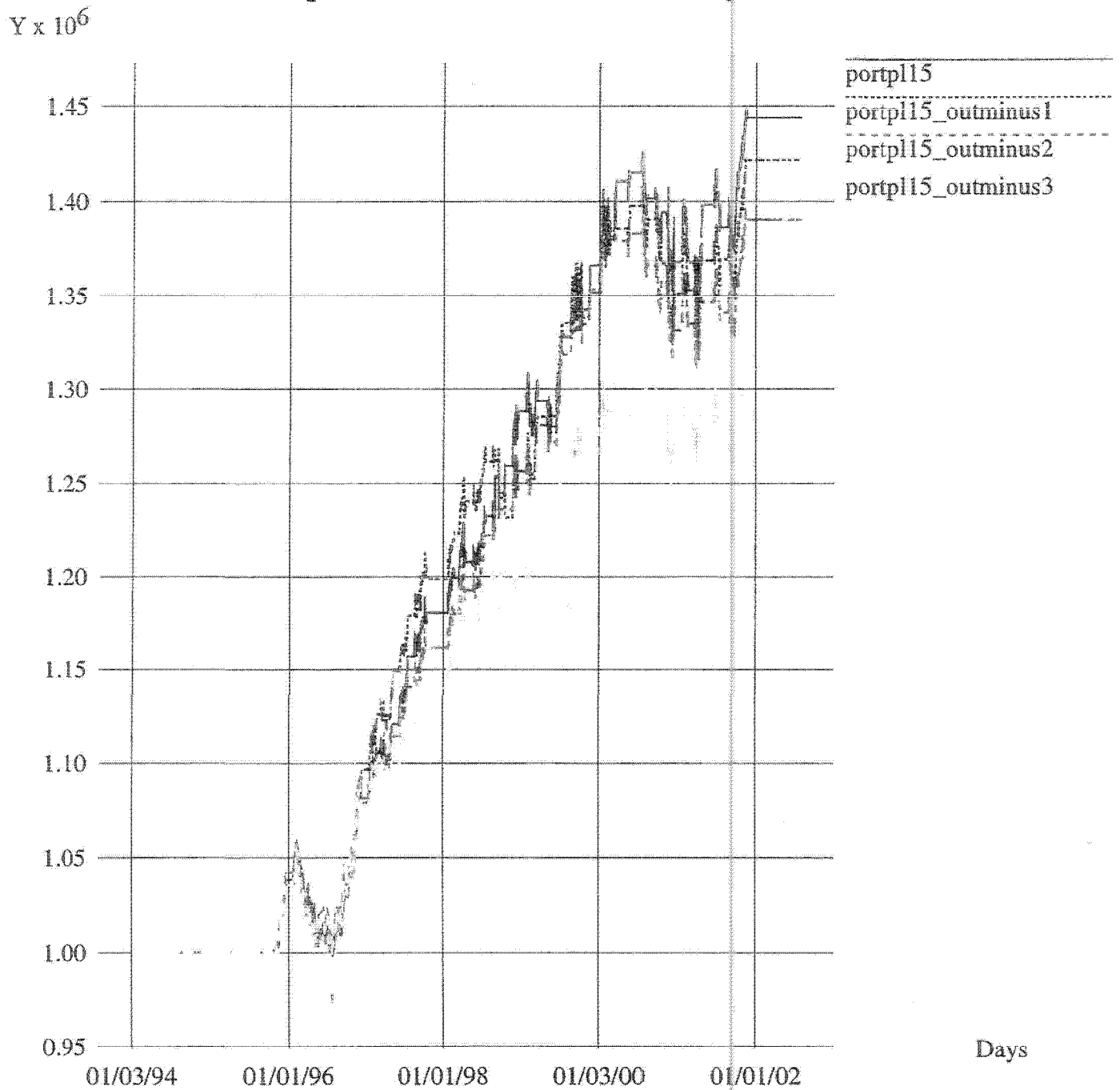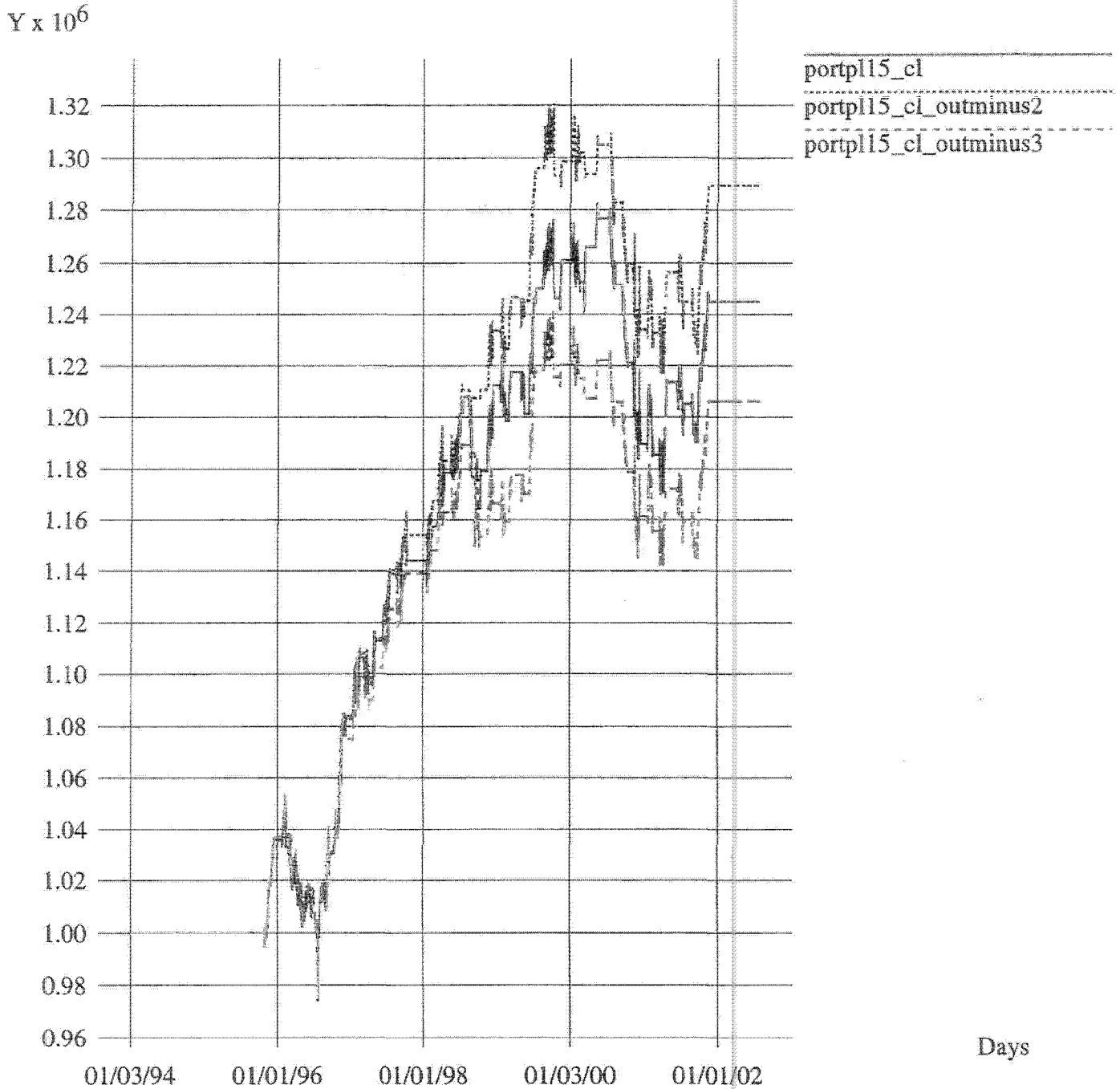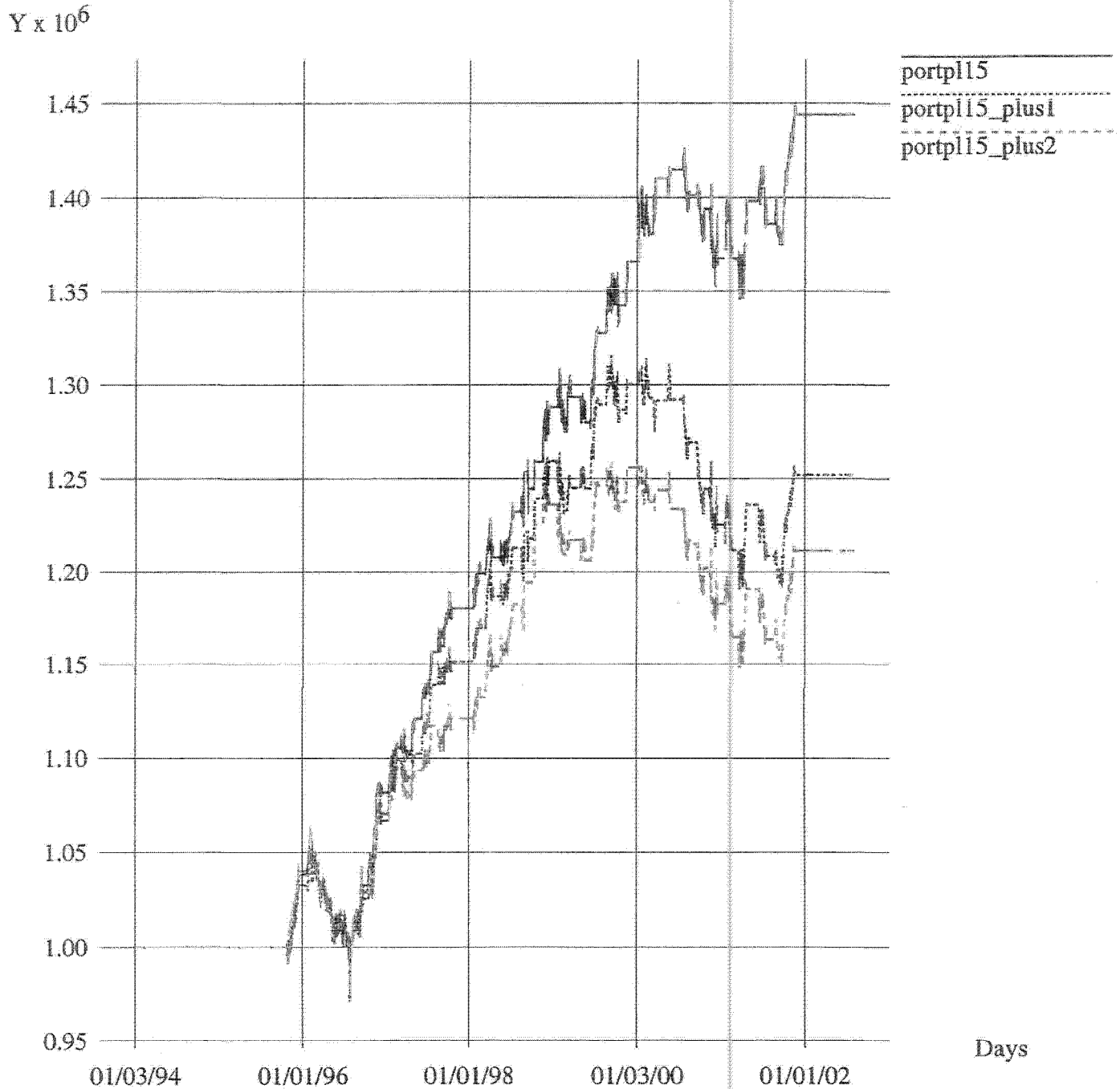Graph 9

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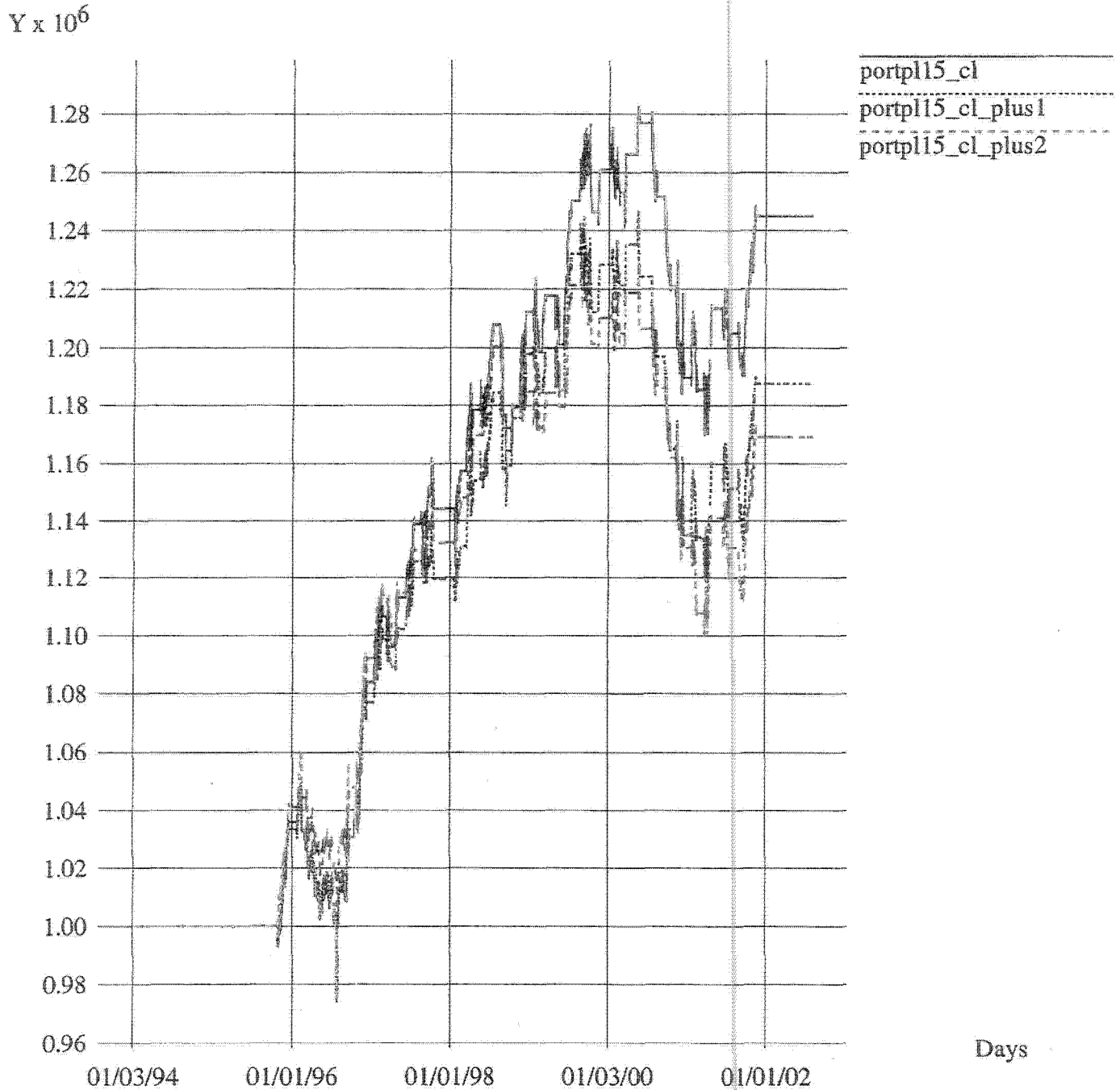## Comparison of Mad. for outday minus x close
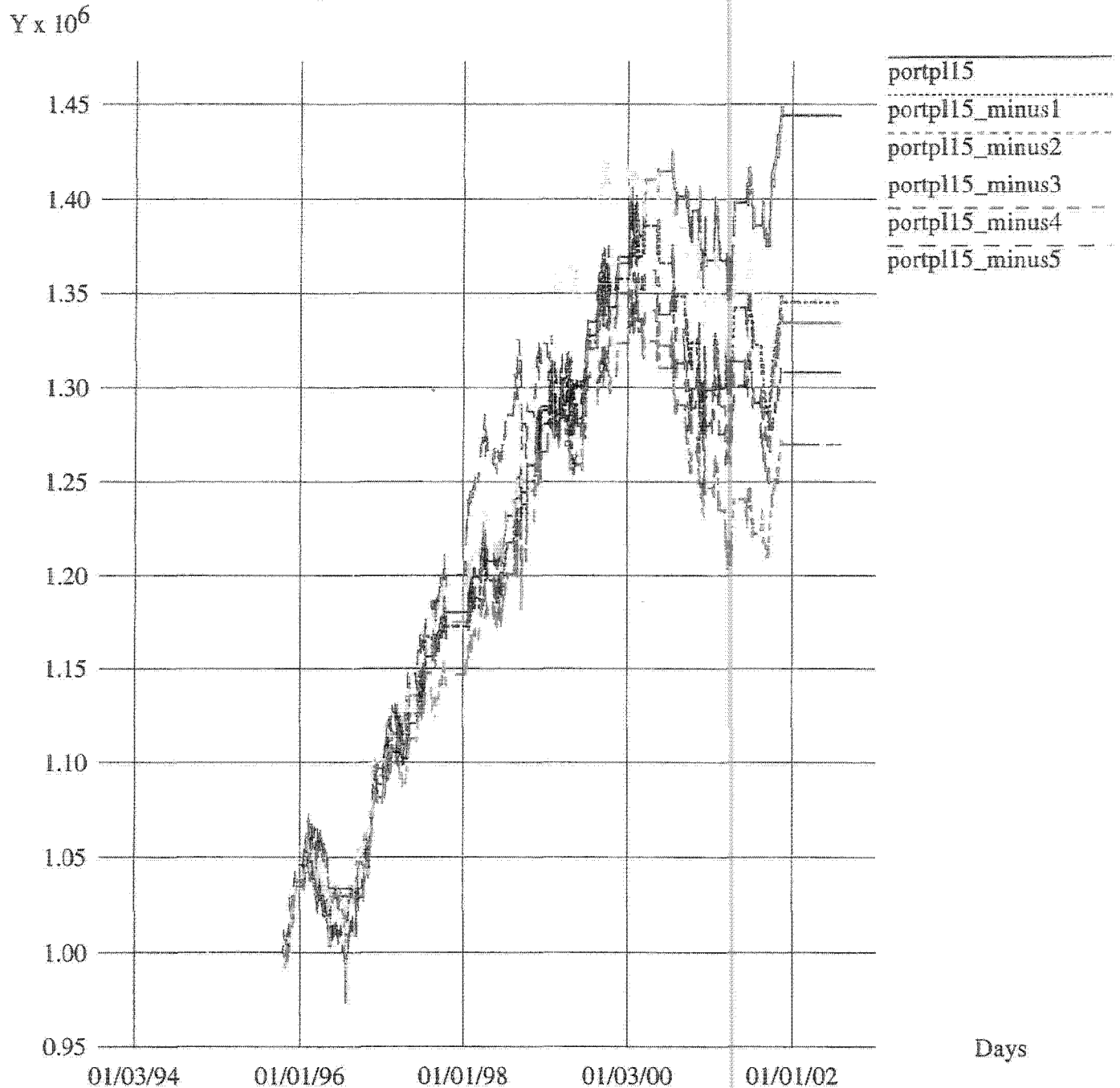

Graph 10

30

Comparison of Mad. for inday plus x

Graph 11

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Comparison of Mad. for inday cl plus x
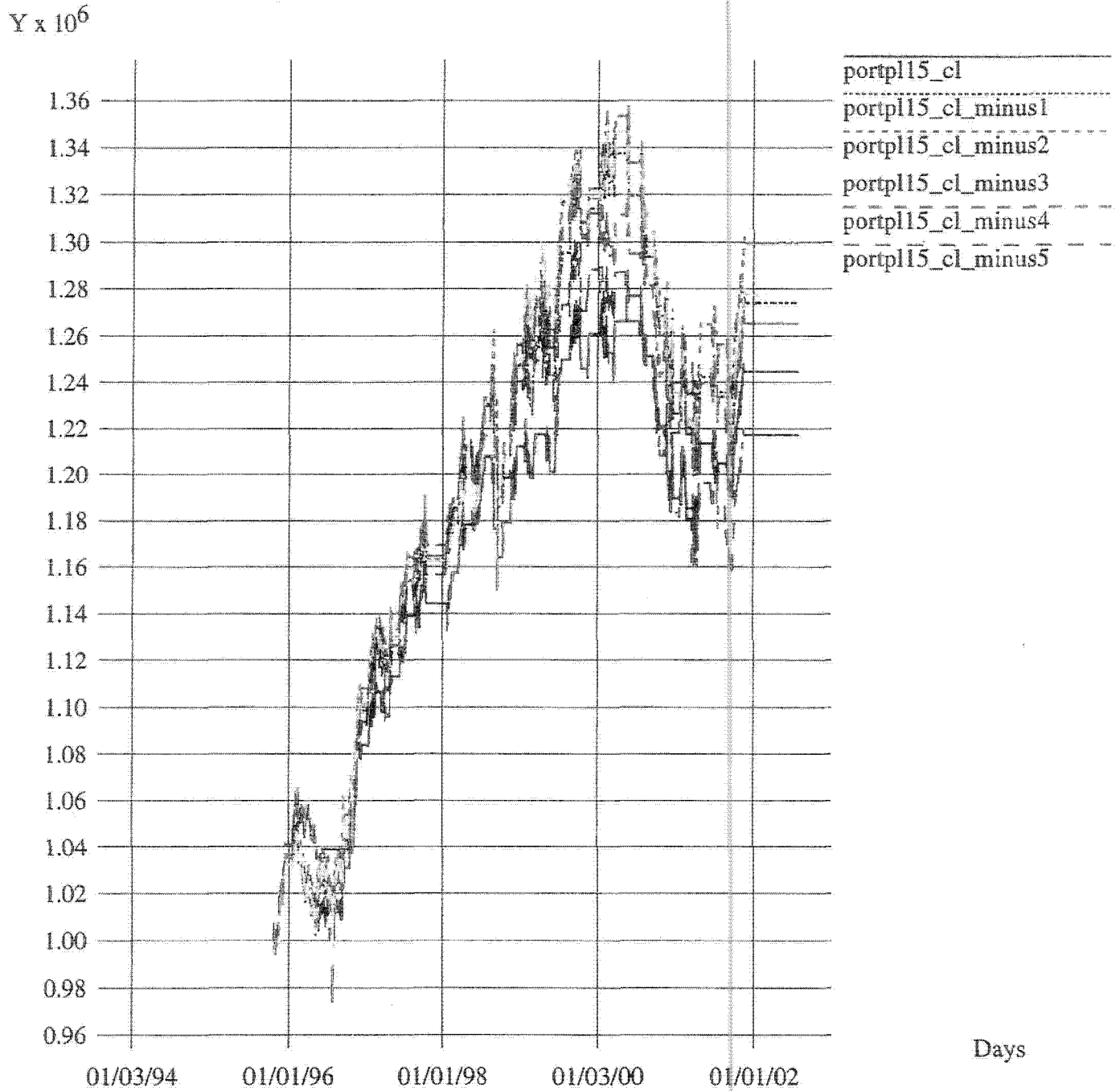

Graph 12

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Comparison of Mad. for inday minus x

Graph 13

Comparison of Mad. for inday close minus x

$Y \times 10^6$

portpl15_cl	
portpl15_cl_minus1	
portpl15_cl_minus2	
portpl15_cl_minus3	
portpl15_cl_minus4	
portpl15_cl_minus5	

Days

Graph 14

34

$Y \times 10^6$

Legend:
- portpl25
- portpl10
- portpl5
- portpl15
- portpl20
- portpl30

Y-axis values: 1.55, 1.50, 1.45, 1.40, 1.35, 1.30, 1.25, 1.20, 1.15, 1.10, 1.05, 1.00, 0.95

X-axis (Days): 01/03/94, 01/01/96, 01/01/98, 01/03/00, 01/01/02
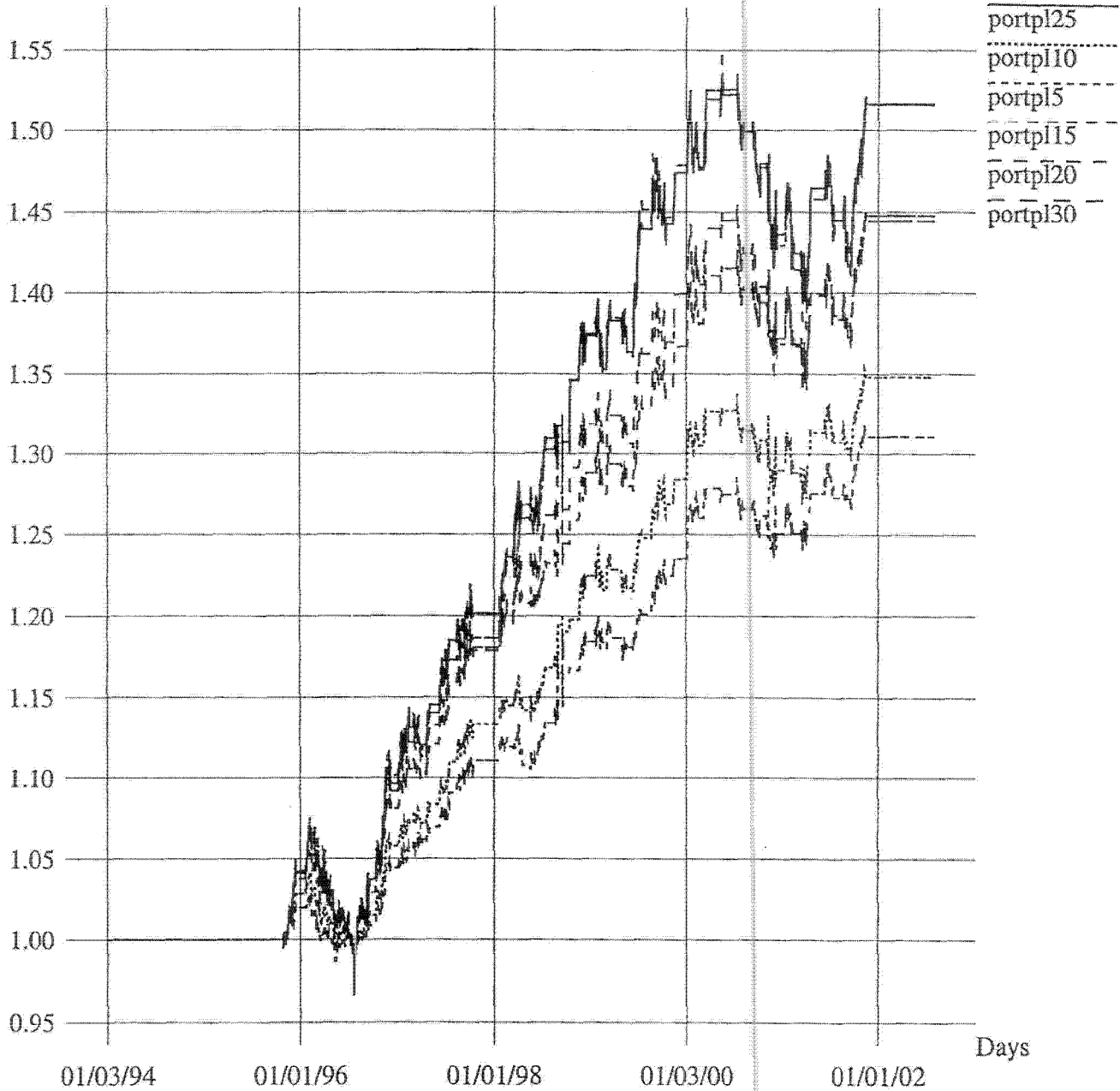
Graph 15

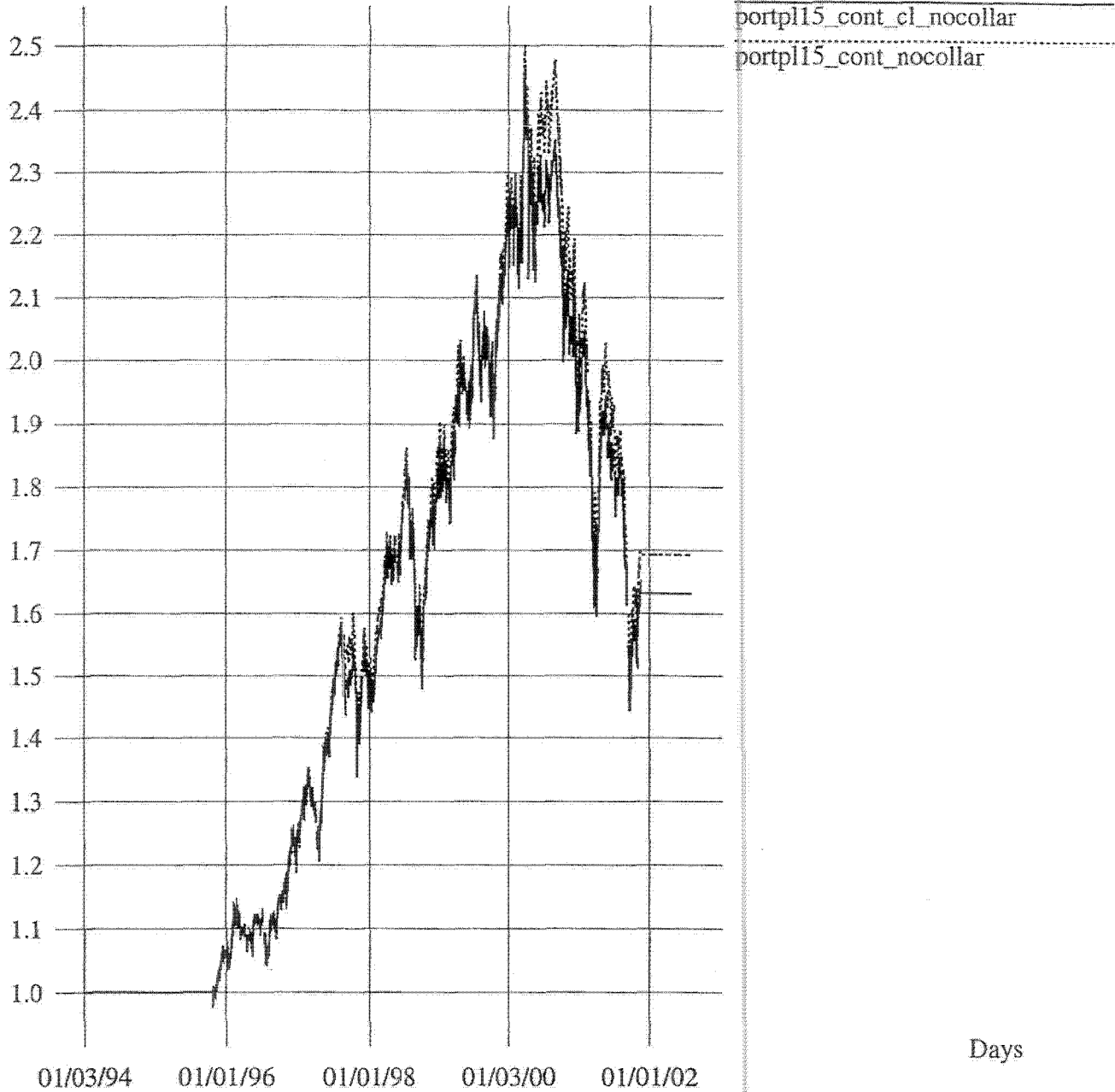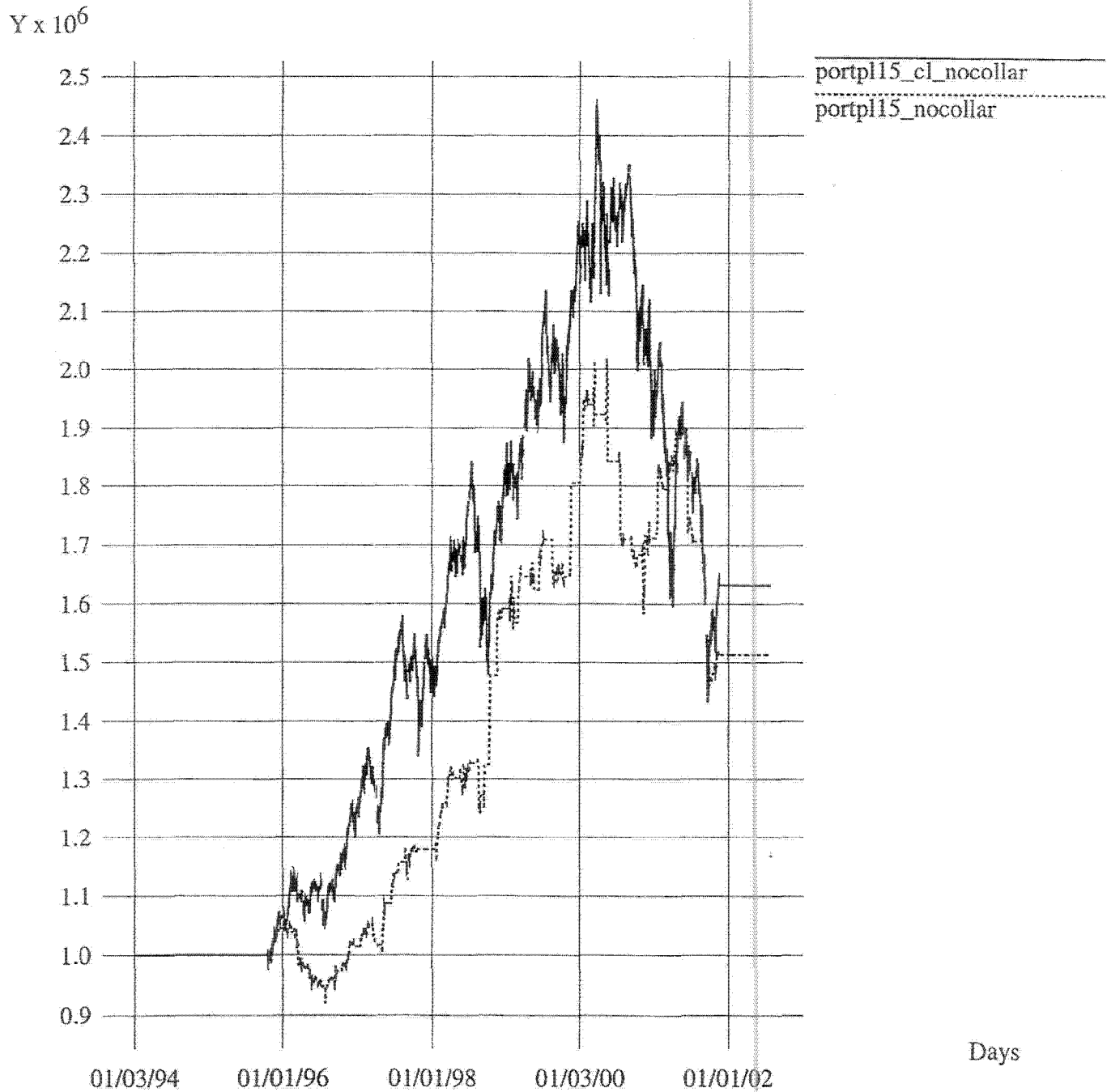NoCollar Continuous trading profits for cl/av

Graph 16

No Collar trading profits for cl/av

Graph 17
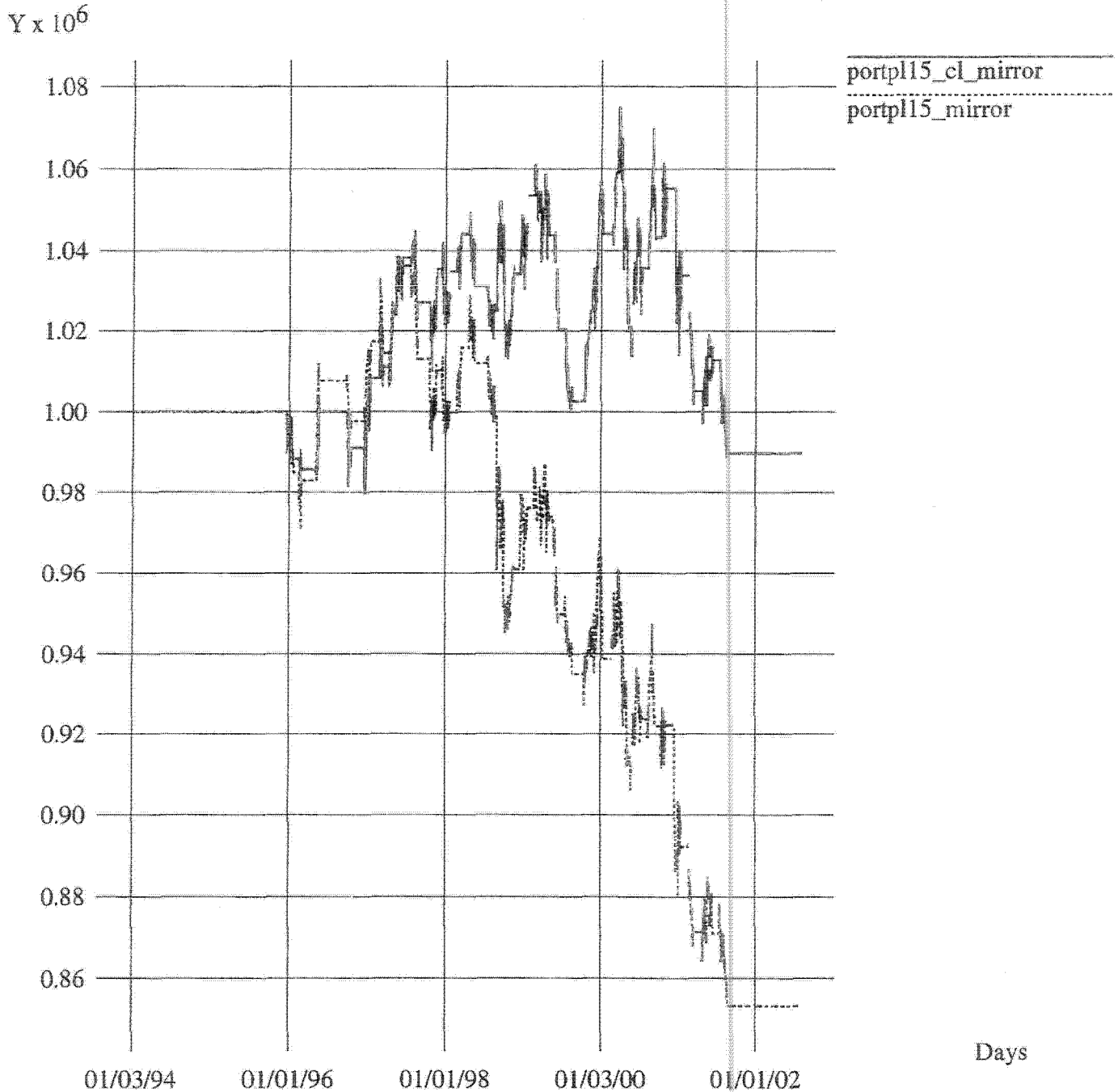
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Comparison of Mad. mirror for av/cl prices

$Y \times 10^6$

Legend:
- portpl15_cl_mirror
- portpl15_mirror

Days

Graph 18

38

Comparison of Mad. mirror for av/cl prices plus 1

$Y \times 10^6$

Legend:
- portpl15_mirror_plus1
- portpl15_cl_mirror_plus1

Y-axis values: 1.06, 1.05, 1.04, 1.03, 1.02, 1.01, 1.00, 0.99, 0.98, 0.97, 0.96, 0.95, 0.94, 0.93

X-axis: 01/03/94   01/01/96   01/01/98   01/03/00   01/01/02

Days

Graph 19

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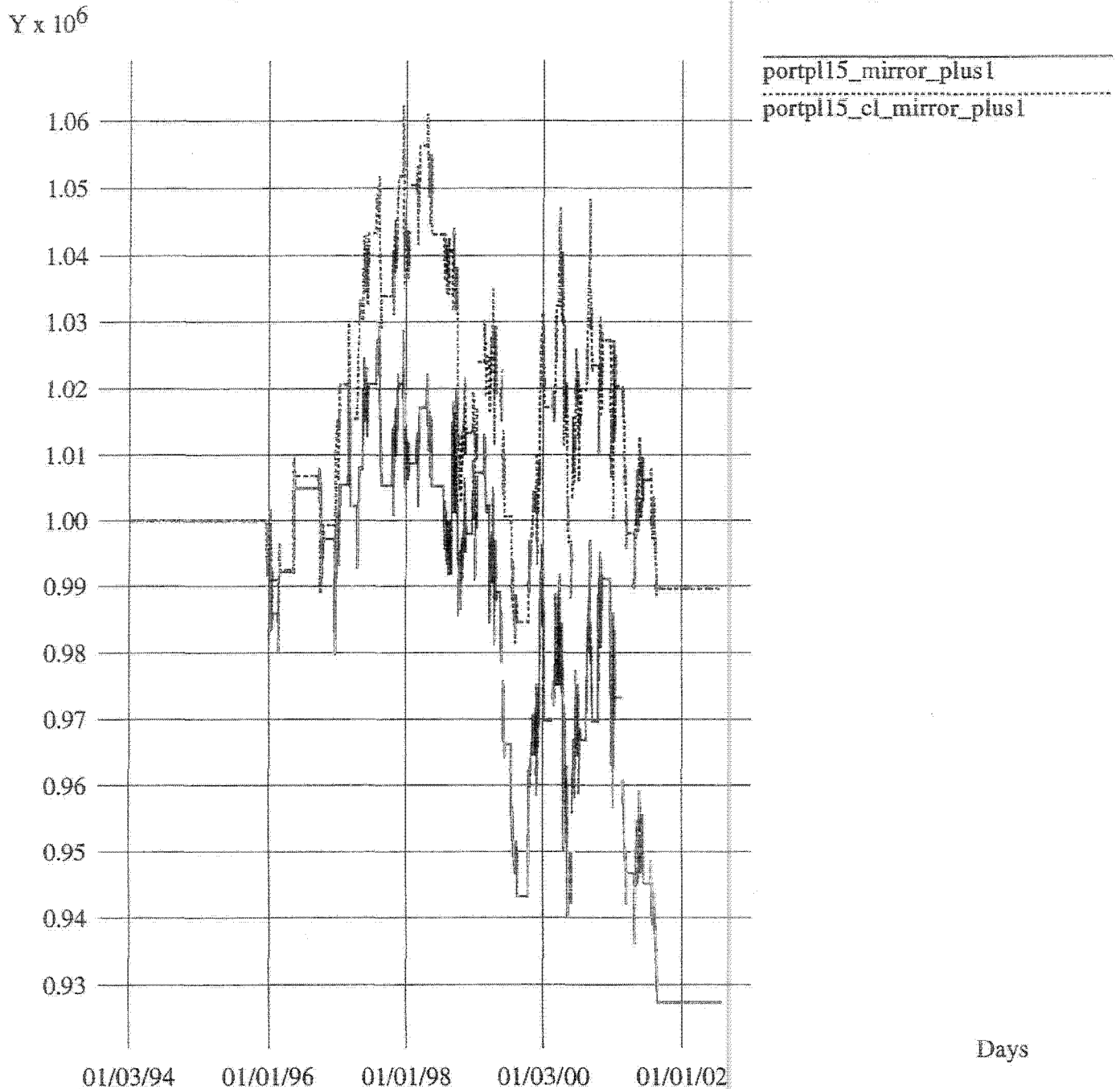
Comparison of Mad. mirror for av/cl prices plus 2
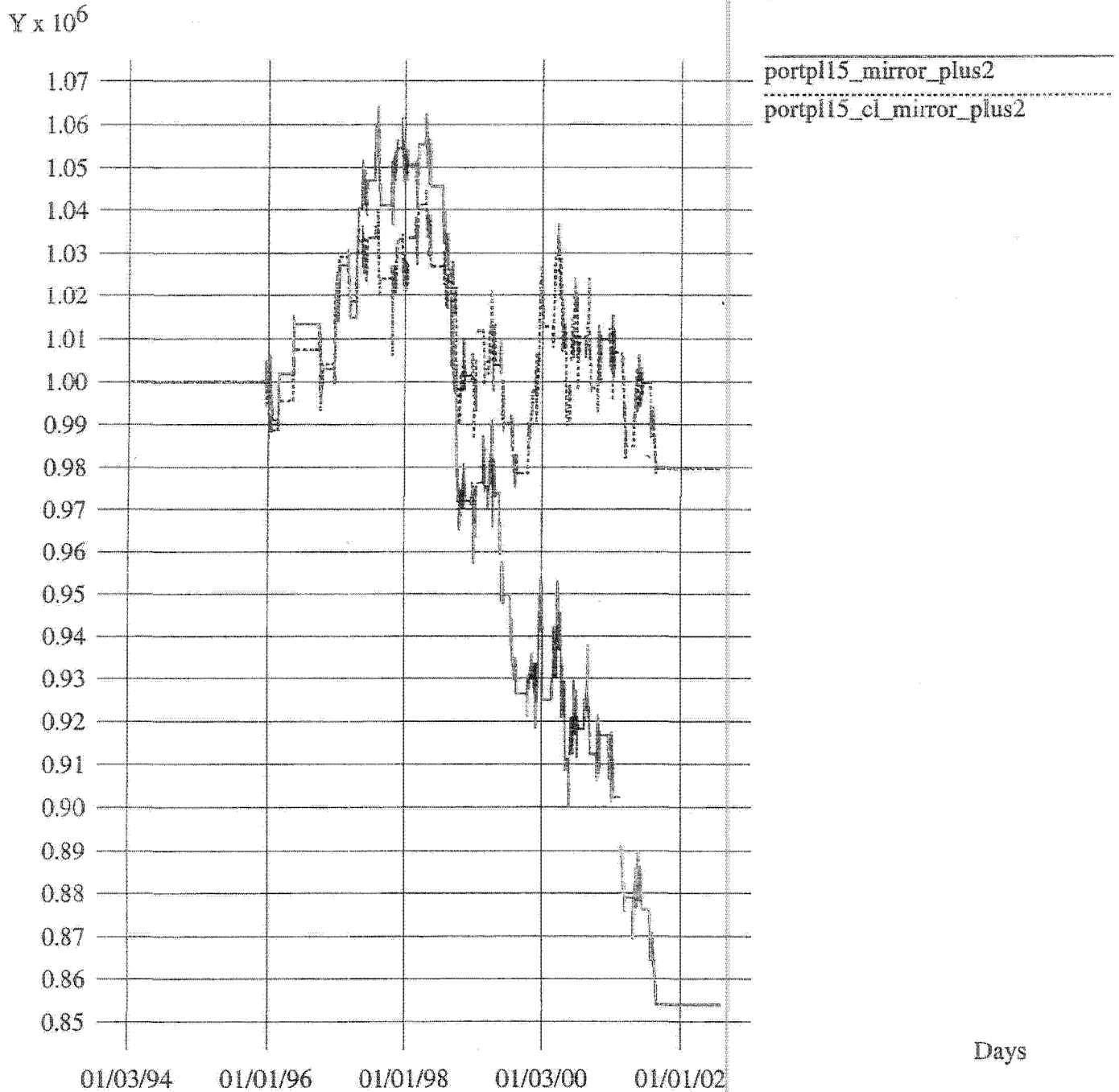
Graph 20

Comparison of Mad. mirror for in plus x

$Y \times 10^6$

portpl15_mirror_plus2
portpl15_mirror_plus1
portpl15_mirror

1.07	
1.06	
1.05	
1.04	
1.03	
1.02	
1.01	
1.00	
0.99	
0.98	
0.97	
0.96	
0.95	
0.94	
0.93	
0.92	
0.91	
0.90	
0.89	
0.88	
0.87	
0.86	
0.85	

Days

01/03/94   01/01/96   01/01/98   01/03/00   01/01/02

Graph 21

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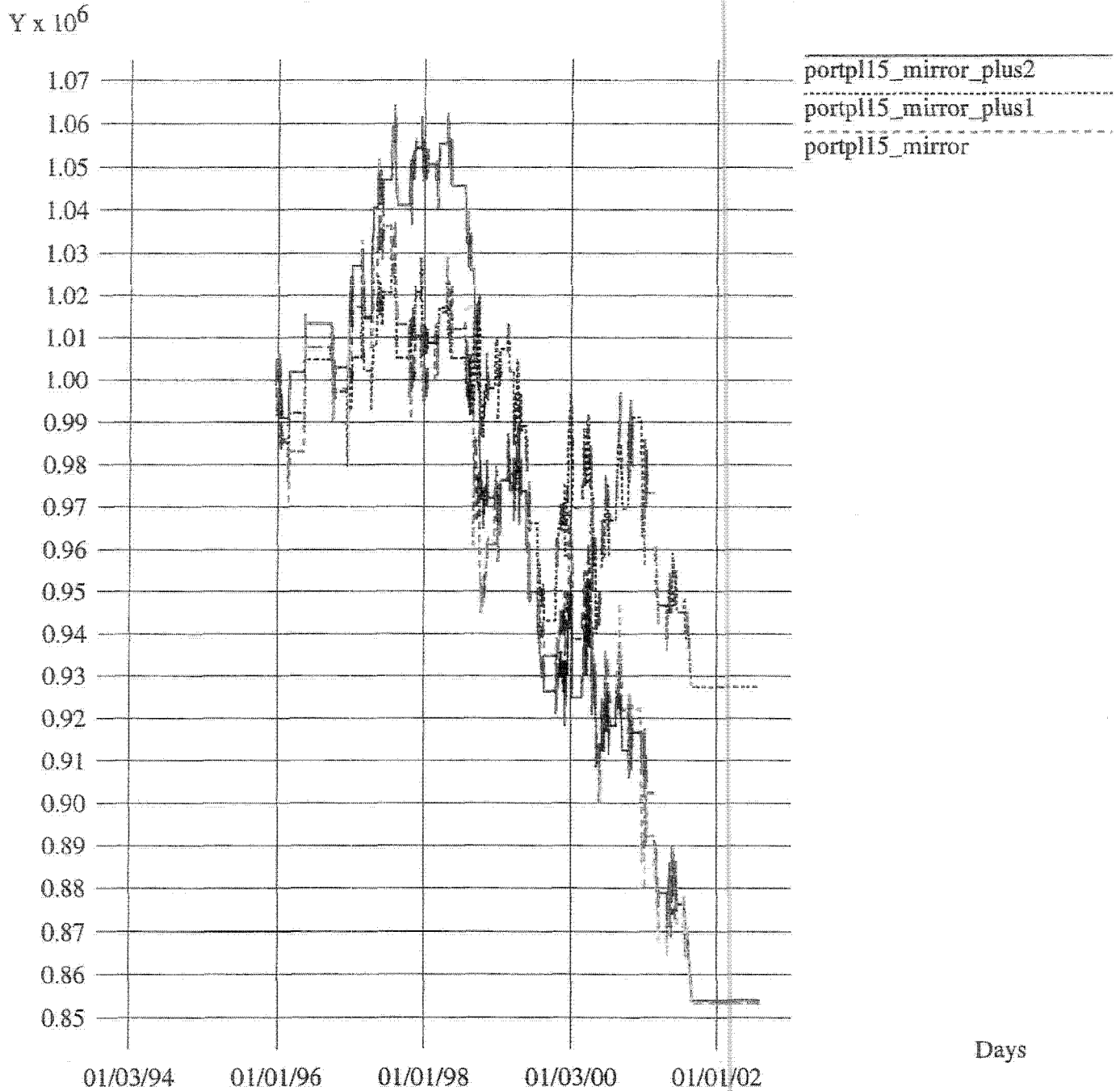
Comparison of Mad. for inplus2outminus2 mirror av/cl

$Y \times 10^6$

portpl15_mirror_inplus2outminus2

portpl15_cl_mirror_inplus2outmijus2

1.070
1.065
1.060
1.055
1.050
1.045
1.040
1.035
1.030
1.025
1.020
1.015
1.010
1.005
1.000
0.995
0.990
0.985
0.980
0.975

01/03/94 01/01/96 01/01/98 01/03/00 01/01/02

Days
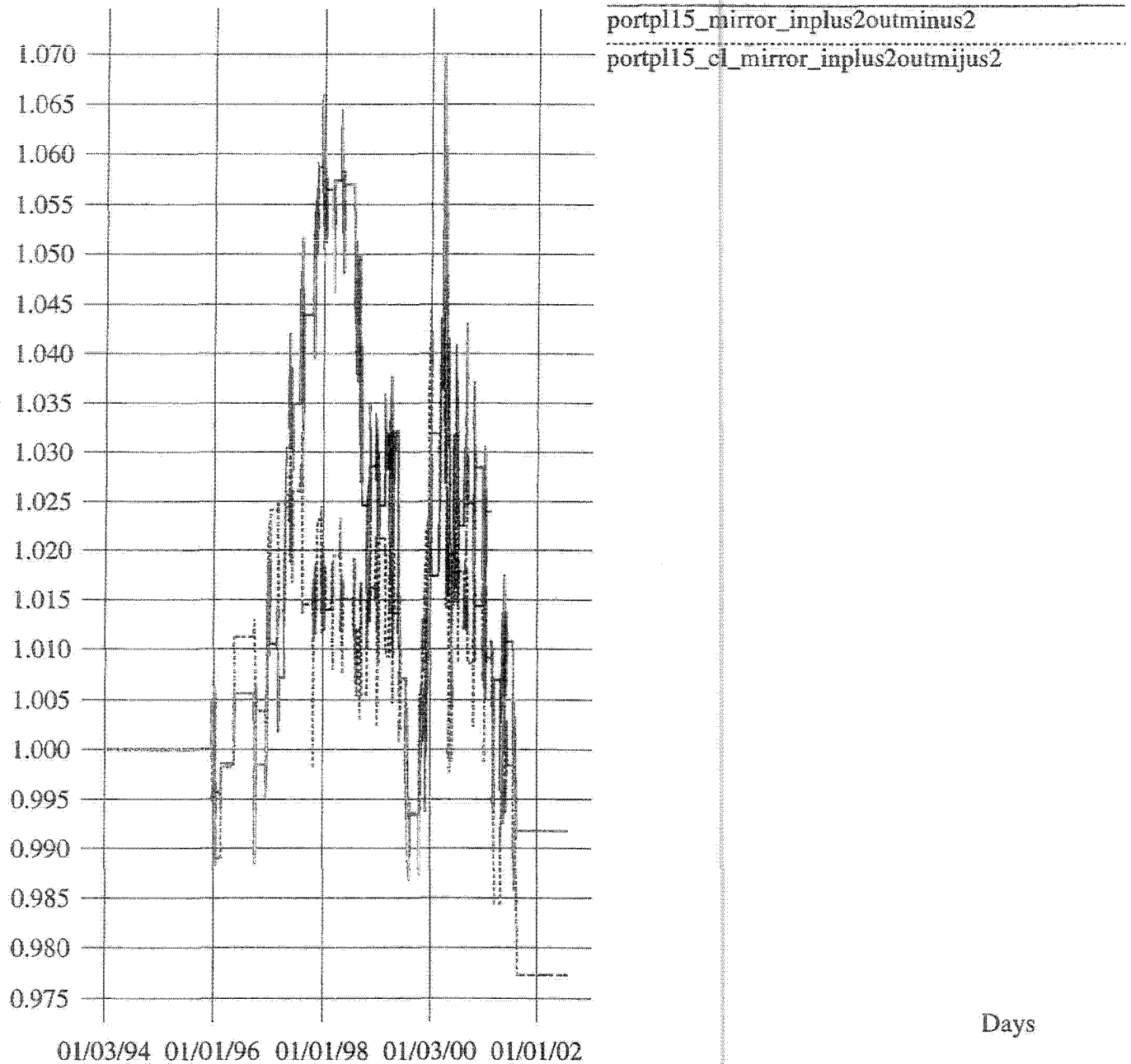
Graph 22

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No Collar Mirror trading profits for cl/av

$Y \times 10^6$

portpl15_cl_mirror_nocollar
portpl15_mirror_nocollar

Days

01/03/94   01/01/96   01/01/98   01/03/00   01/01/02

Graph 23

42
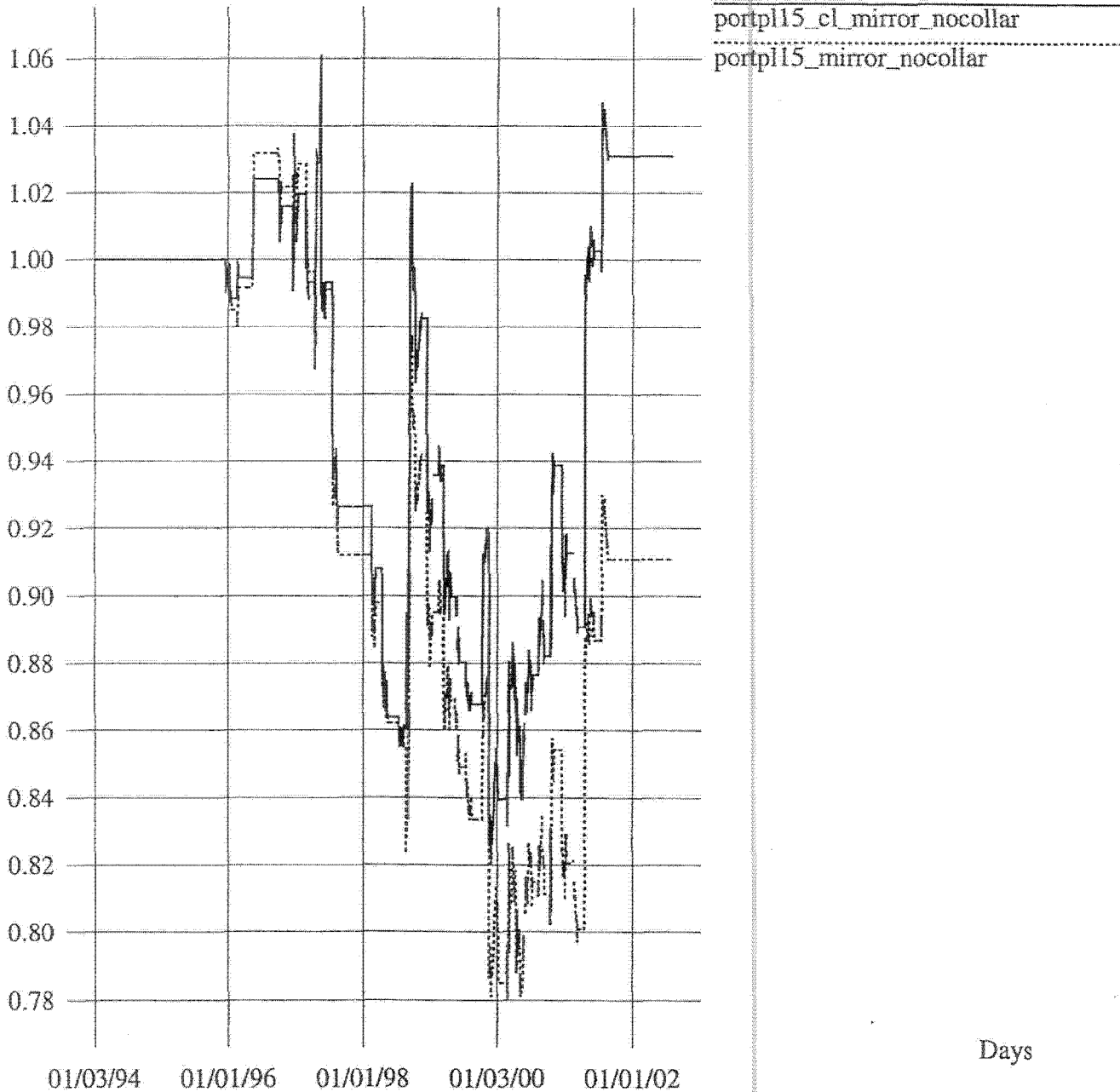
6   Proposal

We would like to extend this study into a combined research and production
experiment where we actually trade a modest portfolio. In this way we could
further understand the Madoff strategy and develop the necessary practical
trading skills. Eventually a fully fledged scheme like this would be capable
of holding a $.5B portfolio, where this number is mainly limitied by the size
of the options market.

As we see from this report, the approximate 18%/year return number
that is reported from Madoff is the total return and can be broken down
into several components. As before let us remove or weaken the components
one at a time. When removing the TBill returns the resulting profits are
shown in Graph 1. The next component removed are the profits from the
exceptionally good fills of the stock trades. This curve is shown in Graph 3 as
total_NOTB_int. From this curve we see that more than 1/3 of the original
profits remain and that during the stock market collapse of 2000/2001 this
reduced system did not lose money. This feature is consistent with the curves
shown from the simulator and we note the returns from total_NOTB_int
and the simulator are both around 7-8% a year under these unfavorable
conditions.

The challenge with the Madoff style is to get into stock positions on a
day when the market is up at the end of day compared to when we put the
positions on. This allows us to put on the options essentially for free and
lock in the gain of getting into stock positions. Our thoughts on this are to
use day predictions from either Nova or Futures or both for a signal to trade
into positions. In addition a study is underway to see if we can identify a
prediction based on the Madoff dates.

The TBill returns themselves deserve some discussion. The TBill return is
important for Madoff during early years due to a higher interest environment.
In our environment we could have this incorporated in the strategy and
possibly employ some of Mark Taylor's ideas to achieve even better returns
for the money when the system is out of the stock positions. However, in
the first pass we feel that this a byproduct that should not complicate the
results of the system.

Even though we are close to having a system that we think is tradable,
there is work to be done before the first portfolio can be put on. The efforts
needed include:

- obtain and use a prediction for a single day. As mentioned in the last paragraph, we could use a day prediction from the Nova system.

- write a more production quality program to handle the trading.

- understand in more detail the unusual trading advantages, if any, Madoff enjoys with his stock/option order flow.

In summary, when looking at the layers peeled off from Madoff's returns, we have a simulator that seems to capture the essence of the scheme. We think this scheme is worth an experiment where we actually put on a small portfolio to further investigation and research.

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